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**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
30 JUNE 2013**

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Statement of Financial Position as at 30 June 2013

	Note(s)	2013 R	2012 R
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	7	3,353,663	3,703,942
Consumer debtors from exchange transactions	10	26,413,057	180,646,836
Trade and other receivables from exchange transactions	8	1,640,824	3,242,409
Receivables from non-exchange transactions	9	418,891	9,556,724
Prepayments	6	594,000	113,399
Cash and cash equivalents	11	153,300,175	88,404,191
		<b>185,720,610</b>	<b>285,667,501</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	3	915,367,832	712,292,615
Intangible assets	4	49,042	49,042
		<b>915,416,874</b>	<b>712,341,657</b>
<b>Total Assets</b>		<b>1,101,137,484</b>	<b>998,009,158</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	13	2,548,206	1,548,035
Trade and other payables from exchange transactions	17	22,218,654	52,982,112
Consumer deposits	18	8,758,905	8,408,026
Retirement benefit obligation - Current portion	5	167,237	148,225
Unspent conditional grants and receipts	14	133,389,894	126,350,884
Development Bank of South Africa - Current portion	12	2,627,608	2,317,251
Provisions	15	40,302,341	34,234,577
VAT payable	16	19,682,275	28,089,247
Bank overdraft	11	4,527,234	-
		<b>234,222,354</b>	<b>254,078,357</b>
<b>Non-Current Liabilities</b>			
Development Bank of South Africa - Non-current portion	12	7,845,838	10,535,808
Finance lease obligation	13	1,691,905	1,921,781
Retirement benefit obligation - Current portion	5	3,692,552	3,310,395
		<b>13,230,295</b>	<b>15,767,984</b>
<b>Total Liabilities</b>		<b>247,452,649</b>	<b>269,846,341</b>
<b>Assets</b>		<b>1,101,137,484</b>	<b>998,009,158</b>
<b>Liabilities</b>		<b>(247,452,649)</b>	<b>(269,846,341)</b>
<b>Net Assets</b>		<b>853,684,835</b>	<b>728,162,817</b>
<b>Net Assets</b>			
Accumulated surplus		<b>853,684,835</b>	<b>728,162,817</b>

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Statement of Financial Performance

	Note(s)	2013 R	2012 R
<b>Revenue</b>			
Government grants & subsidies	21	495,985,099	341,485,743
Service charges	20	119,208,980	93,550,967
Interest received	27	39,236,761	19,048,071
Other income		3,153,045	3,019,579
<b>Total revenue</b>		<b>657,583,885</b>	<b>457,104,360</b>
<b>Expenditure</b>			
Employee related costs	24	(122,520,481)	(98,785,270)
Remuneration of councillors	25	(4,791,780)	(5,502,364)
Depreciation and amortisation	28	-	(26,999,350)
Finance costs	29	(2,644,342)	(2,855,870)
Impairment of debtors	26	(248,541,852)	(16,390,524)
Collection costs		-	(616,050)
Repairs and maintenance		(16,101,089)	(14,268,441)
Bulk purchases	31	(3,857,201)	(4,043,301)
General Expenses	23	(126,169,955)	(196,101,761)
<b>Total expenditure</b>		<b>(524,626,700)</b>	<b>(365,562,931)</b>
Total revenue		-	-
Total expenditure		657,583,885	457,104,360
<b>Operating surplus</b>		<b>(524,626,700)</b>	<b>(365,562,931)</b>
Loss on disposal of assets and liabilities		132,957,185	91,541,429
<b>Surplus for the year</b>		<b>132,957,185</b>	<b>91,476,133</b>

## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	641,728,469	641,728,469
Adjustments		
Prior year adjustments (note 35)	(5,041,785)	(5,041,785)
<b>Balance at 01 July 2011 as restated</b>	<b>636,686,684</b>	<b>636,686,684</b>
Changes in net assets		
Surplus for the year	91,476,133	91,476,133
Total changes	91,476,133	91,476,133
Opening balance as previously reported	728,162,817	728,162,817
Adjustments		
Prior year adjustments (note 35)	(7,435,167)	(7,435,167)
<b>Balance at 01 July 2012 as restated</b>	<b>720,727,650</b>	<b>720,727,650</b>
Changes in net assets		
Surplus for the year	132,957,185	132,957,185
Total changes	132,957,185	132,957,185
<b>Balance at 30 June 2013</b>	<b>853,684,835</b>	<b>853,684,835</b>
Note(s)		

## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Cash Flow Statement

	Note(s)	2013 R	2012 R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Service charges		24,900,908	38,280,984
Grants		503,024,109	440,030,963
Interest income		39,236,761	19,048,071
Other receipts		3,153,045	3,019,579
		<u>570,314,823</u>	<u>500,379,597</u>
<b>Payments</b>			
Employee and councillor costs		(127,166,733)	(104,287,634)
Suppliers and others		(175,450,461)	(259,057,011)
Finance costs		(2,644,342)	(2,855,870)
		<u>(305,261,536)</u>	<u>(366,200,515)</u>
Total receipts		570,314,823	500,379,597
Total payments		<u>(305,261,536)</u>	<u>(366,200,515)</u>
<b>Net cash flows from operating activities</b>	32	<u>265,053,287</u>	<u>134,179,082</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	<u>(203,075,220)</u>	<u>(38,107,055)</u>
<b>Cash flows from financing activities</b>			
Decrease in long term loan		(2,379,613)	(2,155,562)
Increase/ (decrease) in finance lease liability		770,296	2,449,599
<b>Net cash flows from financing activities</b>		<u>(1,609,317)</u>	<u>294,037</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		60,368,750	96,366,064
Cash and cash equivalents at the beginning of the year		88,404,191	(7,961,873)
<b>Cash and cash equivalents at the end of the year</b>	11	<u>148,772,941</u>	<u>88,404,191</u>

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Variances greater than 10 % analysed in note 43
	R	R	R	R	R	
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	129,616,000	(1,016,000)	128,600,000	119,208,980	(9,391,020)	7.3%
Interest received	17,401,000	2,849,000	20,250,000	39,236,761	18,986,761	93.76%
Other income	424,000	14,000	438,000	3,153,045	2,715,045	619%
Government grants-Transfers recognised (operational)	275,308,000	2,800,000	278,108,000	279,411,839	1,303,839	0.4%
<b>Total revenue from exchange transactions</b>	<b>422,749,000</b>	<b>4,647,000</b>	<b>427,396,000</b>	<b>441,010,625</b>	<b>13,614,625</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Government grants-Transfers recognised (capital)	207,503,000	11,000,000	218,503,000	216,573,260	(1,929,740)	0.8%
<b>'Total revenue from exchange transactions'</b>	<b>422,749,000</b>	<b>4,647,000</b>	<b>427,396,000</b>	<b>441,010,625</b>	<b>13,614,625</b>	<b>3%</b>
<b>'Total revenue from non-exchange transactions'</b>	<b>207,503,000</b>	<b>11,000,000</b>	<b>218,503,000</b>	<b>216,573,260</b>	<b>(1,929,740)</b>	<b>0.8%</b>
<b>Total revenue</b>	<b>630,252,000</b>	<b>15,647,000</b>	<b>645,899,000</b>	<b>657,583,885</b>	<b>11,684,885</b>	
<b>Expenditure</b>						
Personnel	(118,117,000)	1,620,000	(116,497,000)	(122,520,481)	(6,023,481)	5%
Remuneration of councillors	(5,254,000)	-	(5,254,000)	(4,791,780)	462,220	8%
Depreciation and amortisation	(36,040,000)	-	(36,040,000)	-	36,040,000	100%
Finance costs	(3,841,000)	-	(3,841,000)	(2,644,342)	1,196,658	31.15%
Debt impairment	(73,232,000)	-	(73,232,000)	(248,541,852)	(175,309,852)	237%
Repairs and maintenance	(22,310,000)	4,360,000	(17,950,000)	(18,101,089)	1,848,911	10.30%
Bulk purchases	(40,013,000)	-	(40,013,000)	(42,250,583)	(2,237,583)	5.5%
Contracted Services	(37,614,000)	(7,060,000)	(44,674,000)	(45,281,013)	(607,013)	1.4%
General Expenses	(71,549,000)	(26,483,000)	(98,032,000)	(42,495,560)	55,536,440	56.65%
<b>Total expenditure</b>	<b>(407,970,000)</b>	<b>(27,563,000)</b>	<b>(435,533,000)</b>	<b>(524,626,700)</b>	<b>(89,093,700)</b>	
	222,282,000	(11,916,000)	210,366,000	132,957,185	(77,408,815)	
<b>Surplus before taxation</b>	<b>222,282,000</b>	<b>(11,916,000)</b>	<b>210,366,000</b>	<b>132,957,185</b>	<b>(77,408,815)</b>	
<b>Deficit before taxation</b>	<b>222,282,000</b>	<b>(11,916,000)</b>	<b>210,366,000</b>	<b>132,957,185</b>	<b>(77,408,815)</b>	
<b>Taxation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>222,282,000</b>	<b>(11,916,000)</b>	<b>210,366,000</b>	<b>132,957,185</b>	<b>(77,408,815)</b>	

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Variances greater than 10 % analysed in note 43
	R	R	R	R	R	
<b>Reconciliation</b>						
<b>Format and classification differences</b>						
Contracted services				(45,281,013)		
Reclassification of water tankering expenses categorised as general expenses to contracted services				24,638,089		
Reclassification of chemicals expenses categorised as general expenses to contracted services				5,168,042		
Reclassification of insurance expenses categorised as general expenses to contracted services				1,078,084		
Reclassification of security expenses categorised as general expenses to contracted services				222,044		
Reclassification of hire expenses to contracted services - General expenses				5,287,059		
Reclassification of electricity under general expenses to bulk purchases				38,393,382		
Bulk purchases				(38,393,382)		
Reclassification of uthukela civil defence expenditure from general expenses- other expenses to contracted services				8,887,695		
<b>Actual Amount in the Statement of Financial Performance</b>				<b>132,957,185</b>		

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Variances greater than 10 % analysed in note 43
	R	R	R	R	R	
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	3,955,000	-	3,955,000	3,353,663	(601,337)	15.20%
Trade and other receivables from exchange transactions	4,014,000	-	4,014,000	1,640,824	(2,373,176)	20%
Receivables from non-exchange transactions	-	-	-	418,892	418,892	100%
Prepayments	-	-	-	594,000	594,000	100%
Consumer debtors from exchange transactions	180,787,000	-	180,787,000	26,413,057	(154,373,943)	84.54%
Cash and cash equivalents	63,300,000	185,315,000	248,615,000	153,300,175	(95,314,825)	38.33%
	<b>252,056,000</b>	<b>185,315,000</b>	<b>437,371,000</b>	<b>185,720,611</b>	<b>(251,650,389)</b>	
<b>Non-Current Assets</b>						
Property, plant and equipment	1,001,518,000	-	1,001,518,000	915,367,831	(86,150,169)	8.60%
Intangible assets	51,000	-	51,000	49,042	(1,958)	3.83%
	<b>1,001,569,000</b>	<b>-</b>	<b>1,001,569,000</b>	<b>915,416,873</b>	<b>(86,152,127)</b>	
Non-Current Assets	252,056,000	185,315,000	437,371,000	185,720,611	(251,650,389)	
Current Assets	1,001,569,000	-	1,001,569,000	915,416,873	(86,152,127)	
Non-current assets held for sale (and) (assets of disposal groups)	-	-	-	-	-	
<b>Total Assets</b>	<b>1,253,625,000</b>	<b>185,315,000</b>	<b>1,438,940,000</b>	<b>1,101,137,484</b>	<b>(337,802,516)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Borrowings	2,722,000	-	2,722,000	5,175,814	2,453,814	90%
Trade and other payables from exchange transactions	294,276,000	126,351,000	420,627,000	175,290,821	(245,336,179)	58.33
Consumer deposits	8,132,000	-	8,132,000	8,758,905	626,905	7.71%
Retirement benefit obligation - Current portion	-	-	-	167,237	167,237	100%
Provisions	-	-	-	40,302,341	40,302,341	100%
Bank overdraft	231,161,000	-	231,161,000	4,527,234	(226,633,766)	
	<b>536,291,000</b>	<b>126,351,000</b>	<b>662,642,000</b>	<b>234,222,352</b>	<b>(428,419,648)</b>	
<b>Non-Current Liabilities</b>						
Borrowing	14,267,000	-	14,267,000	9,537,744	(4,729,256)	33%
Provisions (Retirement benefit obligation)	4,180,000	-	4,180,000	3,692,552	(487,448)	11.6%
	<b>18,447,000</b>	<b>-</b>	<b>18,447,000</b>	<b>13,230,296</b>	<b>(5,216,704)</b>	
	536,291,000	126,351,000	662,642,000	234,222,352	(428,419,648)	
	18,447,000	-	18,447,000	13,230,296	(5,216,704)	
	-	-	-	-	-	
<b>Total Liabilities</b>	<b>554,738,000</b>	<b>126,351,000</b>	<b>681,089,000</b>	<b>247,452,648</b>	<b>(433,636,352)</b>	
Assets	1,253,625,000	185,315,000	1,438,940,000	1,101,137,484	(337,802,516)	
Liabilities	(554,738,000)	(126,351,000)	(681,089,000)	(247,452,648)	433,636,352	



## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Variances greater than 10 % analysed in note 43
	R	R	R	R	R	
Net Assets	698,887,000	58,964,000	757,851,000	853,684,836	95,833,836	
Net Assets						
Accumulated surplus	698,887,000	58,964,000	757,851,000	853,684,836	95,833,836	

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Variances greater than 10 % analysed in note 43
	R	R	R	R	R	
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Sale of goods and services	130,968,000	1,847,000	132,815,000	24,900,908	(107,914,092)	81.25%
Government - capital	207,503,000	43,000	207,546,000	205,976,103	(1,569,897)	7.56%
Interest income	16,473,000	-	16,473,000	39,236,761	22,763,761	138%
Other receipts	-	-	-	3,153,045	3,153,045	100%
	<b>630,252,000</b>	<b>12,847,000</b>	<b>643,099,000</b>	<b>570,314,823</b>	<b>(72,784,177)</b>	
<b>Payments</b>						
Suppliers and employees	(430,983,000)	1,949,000	(429,034,000)	(302,617,194)	126,416,806	29.46%
Finance costs	(3,841,000)	17,000	(3,824,000)	(2,644,342)	1,179,658	30%
	<b>(434,824,000)</b>	<b>1,966,000</b>	<b>(432,858,000)</b>	<b>(305,261,536)</b>	<b>127,596,464</b>	
Total receipts	630,252,000	12,847,000	643,099,000	570,314,823	(72,784,177)	
Total payments	(434,824,000)	1,966,000	(432,858,000)	(305,261,536)	127,596,464	
<b>Net cash flows from operating activities</b>	<b>195,428,000</b>	<b>14,813,000</b>	<b>210,241,000</b>	<b>265,053,287</b>	<b>54,812,287</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(210,208,000)	(33,000)	(210,241,000)	(203,075,220)	7,165,780	3.41%
<b>Cash flows from financing activities</b>						
Repayment of long term liabilities	-	-	-	(2,379,613)	(2,379,613)	100%
Finance lease payments	-	-	-	770,296	770,296	100%
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,609,317)</b>	<b>(1,609,317)</b>	
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(14,780,000)</b>	<b>14,780,000</b>	<b>-</b>	<b>60,368,750</b>	<b>60,368,750</b>	

# **Uthukela District Municipality**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention unless specified otherwise. The figures in the statements are presented in South African Rand and have been rounded to the nearest Rand.

A summary of significant accounting policies which have been consistently applied to all years presented are set out below.

#### **1.1 Significant judgements and sources of estimation uncertainty**

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### **1.1.1 Provisions**

Management determined an estimate for provisions raised based on the information available. Additional disclosure of these estimates of provisions are included in note 15.

##### **1.1.2 Useful lives of property, plant and equipment**

As described in accounting policies 1.3 and 1.5 the municipality depreciates/amortises its property, plant and equipment and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets become available for use. The useful lives and residual values of the assets are based on industry knowledge and reviewed annually.

##### **1.1.3 Defined benefit plan liabilities**

As described in accounting policy 1.8, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are post retirement health benefit obligations. The estimated liabilities are recorded in accordance with the requirements of IAS 19.

Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in note 5 to the financial statements.

##### **1.1.4 Revenue recognition**

Accounting policy 1.10 on Revenue from Exchange Transactions and accounting policy 1.11 on Revenue from Non - Exchange Transactions describes the conditions under which revenue is recorded by the management of the municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9; Revenue from Exchange Transactions and GRAP 23 Revenue from Non Exchange Transactions and in particular, when services are rendered, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

##### **1.1.5 Financial assets and liabilities**

The classification of financial assets and liabilities, into categories, is based on management's educated judgement.

## **Uthukela District Municipality**

Annual Financial Statements for the year ended 30 June 2013

### **Accounting Policies**

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#### **1.2 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Accounting Policies

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#### 1.2 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a contractual right to:
- receive cash or another financial asset from another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counter party has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities.

A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

## **Uthukela District Municipality**

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#### **1.2 Financial instruments (continued)**

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- combined instruments that are designated at fair value;

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

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### 1.2 Financial instruments (continued)

#### Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial assets measured at amortised cost
Trade and other receivables from non-exchange transactions	Financial assets measured at amortised cost
Trade and other receivables from exchange transactions	Financial assets measured at amortised cost
Long term receivables	Financial assets measured at amortised cost
Prepayments	Financial assets measured at amortised cost
Consumer receivables from exchange transactions	Financial assets measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Borrowings and finance lease obligations	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Other payables	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at fair value
Bank overdraft	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs are added to financial instruments carried at amortised cost or cost.

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following category:

- Financial instruments at amortised cost.

#### Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

#### Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting the allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

# **Uthukela District Municipality**

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## **Accounting Policies**

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### **1.3 Property, plant and equipment**

Property, plant, equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of water and sanitation services, rental to others, or for administrative purposes, and are expected to be used during more than one financial period.

#### **Initial Recognition**

The cost of an item of property, plant, equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant, equipment is initially recognised at cost on its acquisition date or in the case of assets acquired at nil or nominal consideration the deemed cost, being the fair value of the asset at acquisition date.

The cost of an item of property, plant, equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant, equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant, equipment have different useful lives, they are accounted for as separate items (major components) of property, plant, equipment for purposes of depreciation. Costs include costs incurred initially to acquire or construct an item of property, plant, equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant, equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant, equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant, equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by the municipality.

Major spare parts and standby equipment which are expected to be used for more than one period are included in property, plant, equipment. In addition, spare parts and standby equipment which can only be used in connection with an item of property, plant, equipment are accounted for as property, plant, equipment.

#### **Subsequent Measurement**

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic fair value of the subsequent expenditure can be reliably measured.

Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity for future economic benefits associated with the asset. Where the municipality replaces part of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequent measurement of all property, plant and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses. The municipality does not recognise in the carrying amount of an item of property, plant and equipment the cost of day to day servicing of the item.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

#### **Depreciation**

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.



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### Accounting Policies

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#### 1.3 Property, plant and equipment (continued)

Land, is not depreciated as it is regarded as having an infinite life. If the cost of the land includes the cost of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits or service potential, obtained by incurring those costs. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost to their residual values over the estimated useful lives of the asset. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality.

Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Item	Average useful life
Land	Infinite
Buildings	
• Office	30
•	
Plant and machinery	
• Graders	5
• Tractors	5
• Mechanical Horses	5
• Compressors	2
• Lawnmowers	5
• Laboratory equipment	5
• Radio equipment	5
• Telecommunication equipment	5
• Irrigation systems	10
• Lathes & Milling equipment	5
• Tipplers	5
• Tools	5
• General	5
Water networks	
• Meters	10
• Dams	80
• Supply / reticulation	20
• Reservoirs	30
• Water pumps	5
• Mains	30
• Rights	30
• Boreholes	15
Wastewater Networks	
• Sewers	30
• Outfall sewers	40
• Purification works	30
• Sewerage pumps	5
• Sludge machines	15
Office equipment	
• Computer equipment	3
• Office machines	3-5
• Air conditioners	3
• Furniture & fittings	7
• Emergency equipment	5
• Security equipment	5
Other equipment	
• Motor vehicles	5
• Truck / bakkies	5

# Uthukela District Municipality

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## Accounting Policies

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### 1.3 Property, plant and equipment (continued)

#### Infrastructure assets

Infrastructure assets are any assets that are part of a network of similar assets and are shown at cost less accumulated depreciation and accumulated impairment.

#### Derecognition of property, plant and equipment.

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition is included in surplus or deficit when the item is derecognised. Gains or losses, calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds, are included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

### 1.4 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the Statement of Financial Position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is the period of time over which an asset is expected to be used by the municipality.

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

# Uthukela District Municipality

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## Accounting Policies

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### 1.5 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

#### Initial recognition

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale; and
- there is an intention to complete and use or sell it; and
- there is an ability to use or sell it; and
- it will generate probable future economic benefits or service potential; and
- there are available technical, financial and other resources to complete the development and to use - or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Subsequent measurement, amortisation and impairment

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

#### Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising from the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Water rights	30 Years

# **Uthukela District Municipality**

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## **Accounting Policies**

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### **1.6 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### **Finance leases - The municipality as a lessee**

Finance leases are recognised as assets and liabilities in the Statement of Financial Position at amounts equal to the fair value of the leased property or, if lower, the present value of the future minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

The discount rate used in calculating the present value of the future minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of the remaining balance of the liability.

#### **Operating leases - The municipality as a lessee**

Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Financial Performance over the period of the lease

### **1.7 Inventories**

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and, net realisable value or current replacement cost.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the writedown or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### **1.8 Employee benefits**

#### **Defined contribution plans**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

#### **Defined benefit plans**

## **Uthukela District Municipality**

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### **Accounting Policies**

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#### **1.8 Employee benefits (continued)**

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

# **Uthukela District Municipality**

Annual Financial Statements for the year ended 30 June 2013

## **Accounting Policies**

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### **1.8 Employee benefits (continued)**

#### **Short-term employee benefits**

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as an accrual, included under current liabilities.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is included in payables from exchange transactions.

#### **Defined contribution plans**

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity.

The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those funds. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

#### **Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

#### **Post-retirement health care benefits**

The municipality has an obligation to provide post-retirement health care benefits to certain of its retirees.

According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

#### **Long-service allowance**

The municipality has an obligation to provide long-service allowance benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 5, 10, 15, 20, 25 and 30 years of continued service. The rules of this obligation was applicable for the first six (6) months of the financial year and were amended to 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the Statement of Financial Performance.

#### **Defined benefit plans**

The municipality contributes to various defined benefit plans on behalf of its qualifying employees. These funds are multi-employer funds surpluses or deficits in which cannot be attributed to any one employer. As such the funds are dealt with in the same way as a defined contribution plan.

### **1.9 Provisions and contingencies**

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

## **Uthukela District Municipality**

Annual Financial Statements for the year ended 30 June 2013

### **Accounting Policies**

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#### **1.9 Provisions and contingencies (continued)**

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

#### **1.10 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

##### **Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and rebates.

##### **Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably; and
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Service charges from sanitation are raised on a monthly basis in accordance with the approved tariffs.

Interest and rentals are recognised on a time proportion basis.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items are brought into use.

Where public contributions have been received but the municipality has not met the conditions, a liability is recognised.

# Uthukela District Municipality

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### 1.11 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners. Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange. Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes. Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any conditions associated with the grant.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.12 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.13 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred; and
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number and 1.8. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.



# **Uthukela District Municipality**

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## **Accounting Policies**

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### **1.13 Borrowing costs (continued)**

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### **1.14 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### **1.15 Unauthorised expenditure**

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (No. 56 of 2003). All unauthorised expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.16 Fruitless and wasteful expenditure**

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All fruitless and wasteful expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.17 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.18 Presentation of currency**

These annual financial statements are presented in South African Rands.

### **1.19 Offsetting**

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

### **1.20 Purchase of service**

The municipality provides post-retirement housing subsidies for qualifying staff members. The payment of these subsidies is reflected as expenditure in the statement of financial performance.

### **1.21 Conditional grants and receipts**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

## **Uthukela District Municipality**

Annual Financial Statements for the year ended 30 June 2013

### **Accounting Policies**

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#### **1.21 Conditional grants and receipts (continued)**

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised as Accounts Receivable in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the liability and if it is the municipality's interest it is recognised as interest earned in the surplus of deficit for the year.

#### **1.22 Budget information**

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisation's (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2012 to 30/06/2013.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

#### **1.23 Related parties**

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality. Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

The municipality applies IPSAS 20 for related parties.

#### **1.24 Going concern assumption**

The financial statements have been prepared on a going concern basis.

#### **1.25 Tax**

##### **Tax Expense:**

The municipality is exempt from taxation in terms of section 10(1)(A) of the Income Tax Act.

##### **Value Added Tax**

The municipality accounts for VAT on the accrual basis, based on the approval received from the Commissioner for South African Revenue Services to an application by the Municipality, permission has been given to remit or claim for value - added tax on the payments basis for debtors and creditors.

## **Uthukela District Municipality**

Annual Financial Statements for the year ended 30 June 2013

### **Accounting Policies**

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#### **1.26 Risk management of financial assets and liabilities**

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date. Risks and exposure are disclosed as follows:

##### **Credit Risk**

- Each class of financial assets is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.
- Financial assets covered by collateral are specified.

##### **Liquidity Risk**

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

- A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in the notes to the annual financial statements.

##### **Interest Risk**

Interest rate risk originates from the uncertainty about the fair value or future cash flows of a financial instrument which fluctuate because of changes in market interest rates.

- Borrowings issued at variable rates expose the municipality to cash flow interest rate risk.
- Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Management has assessed the impact of interest rate risk on the operations of the municipality and considers the risk to be negligible.

##### **Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate and equity prices will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

	2013 R	2012 R
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### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"> <li>GRAP 23: Revenue from Non-exchange Transactions</li> </ul>	01 April 2012	No impact on the financial statements as conditional grants and revenue is currently only recognised when the conditions associated with the respective grants are met.
<ul style="list-style-type: none"> <li>GRAP 24: Presentation of Budget Information in the Financial Statements</li> </ul>	01 April 2012	This standard has minimal impact on the financial statements but results in more disclosure in the financial statements.
<ul style="list-style-type: none"> <li>GRAP 103: Heritage Assets</li> </ul>	01 April 2012	This standard has no impact on the financial statements as the municipality has no assets classified as heritage assets.
<ul style="list-style-type: none"> <li>GRAP 21: Impairment of non-cash-generating assets</li> </ul>	01 April 2012	This standard has an impact on the financial statements.
<ul style="list-style-type: none"> <li>GRAP 26: Impairment of cash-generating assets</li> </ul>	01 April 2012	This standard is not applicable to the municipality
<ul style="list-style-type: none"> <li>GRAP 104: Financial Instruments</li> </ul>	01 April 2012	This standard has minimal impact on the financial statements.

#### 2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been issued but not yet effective for the current financial year:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"> <li>GRAP 18: Segment Reporting</li> </ul>	01 April 2013	
<ul style="list-style-type: none"> <li>GRAP 25: Employee benefits</li> </ul>	01 April 2013	
<ul style="list-style-type: none"> <li>GRAP 105: Transfers of functions between entities under common control</li> </ul>	01 April 2014	
<ul style="list-style-type: none"> <li>GRAP 106: Transfers of functions between entities not under common control</li> </ul>	01 April 2014	
<ul style="list-style-type: none"> <li>GRAP 107: Mergers</li> </ul>	01 April 2014	
<ul style="list-style-type: none"> <li>GRAP 20: Related parties</li> </ul>	01 April 2013	
<ul style="list-style-type: none"> <li>IGRAP 11: Consolidation – Special purpose entities</li> </ul>	01 April 2014	
<ul style="list-style-type: none"> <li>IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures</li> </ul>	01 April 2014	

## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

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2. New standards and interpretations (continued)
- GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements 01 April 2014
  - GRAP 7 (as revised 2010): Investments in Associates 01 April 2014
  - GRAP 8 (as revised 2010): Interests in Joint Ventures 01 April 2014
  - GRAP 1 (as revised 2012): Presentation of Financial Statements 01 April 2013
  - GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors 01 April 2013
  - GRAP 7 (as revised 2012): Investments in Associates 01 April 2013
  - GRAP 9 (as revised 2012): Revenue from Exchange Transactions 01 April 2013
  - GRAP 12 (as revised 2012): Inventories 01 April 2013
  - GRAP 13 (as revised 2012): Leases 01 April 2013
  - GRAP 16 (as revised 2012): Investment Property 01 April 2013
  - GRAP 17 (as revised 2012): Property, Plant and Equipment 01 April 2013
  - GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101) 01 April 2013
  - GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102) 01 April 2013
  - IGRAP16: Intangible assets website costs 01 April 2013
  - IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue 01 April 2013

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

	2013 R			2012 R		
3. Property, plant and equipment						
	2013			2012		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	1,037,872	-	1,037,872	1,037,872	-	1,037,872
Buildings	482,857	(256,662)	226,195	482,857	(256,662)	226,195
Motor vehicles	3,804,640	-	3,804,640	-	-	-
Infrastructure	1,105,455,681	(206,165,521)	899,290,160	906,185,101	(206,164,615)	700,020,486
Other property, plant and equipment	25,867,530	(18,335,548)	7,531,982	25,867,530	(18,414,658)	7,452,872
Leased assets	7,030,446	(3,553,463)	3,476,983	7,030,446	(3,475,256)	3,555,190
Total	1,143,679,026	(228,311,194)	915,367,832	940,603,806	(228,311,191)	712,292,615

### Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Assets under construction	Total
Land	1,037,872	-	-	1,037,872
Buildings	226,195	-	-	226,195
Motor vehicles	-	3,804,640	-	3,804,640
Infrastructure	700,020,486	-	199,270,580	899,291,066
Other property, plant and equipment	7,452,872	-	-	7,452,872
Leased assets	3,555,190	-	-	3,555,190
	<b>712,292,615</b>	<b>3,804,640</b>	<b>199,270,580</b>	<b>915,367,835</b>

### Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Assets under construction	Disposals	Depreciation	Total
Land	1,037,872	-	-	-	-	1,037,872
Buildings	241,451	-	-	-	(15,256)	226,195
Infrastructure	690,183,569	3,699,331	30,251,407	-	(24,113,821)	700,020,486
Other property, plant and equipment	8,363,451	1,125,836	-	(21,938)	(2,014,477)	7,452,872
Leased assets	1,422,030	3,030,481	-	(43,358)	(853,963)	3,555,190
	<b>701,248,373</b>	<b>7,855,648</b>	<b>30,251,407</b>	<b>(65,296)</b>	<b>(26,997,517)</b>	<b>712,292,615</b>

### Assets subject to finance lease (Net carrying amount)

Motor vehicles	3,804,640	-
Motor vehicles	7,152,010	3,555,190
	<b>10,956,650</b>	<b>3,555,190</b>

### Other information

#### Property, plant and equipment temporarily idle (Carrying amount)

Property, plant and equipment	-	3,186,841
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

	2013 R	2012 R
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### 4. Intangible assets

	2013			2012		
	Cost	Accumulated amortisation and impairment	Carrying value	Cost	Accumulated amortisation and impairment	Carrying value
Water rights	55,000	(5,958)	49,042	55,000	(5,958)	49,042

#### Reconciliation of intangible assets - 2013

	Opening balance	Total
Water rights	49,042	49,042

#### Reconciliation of intangible assets - 2012

	Opening balance	Amortisation	Total
Water rights	50,875	(1,833)	49,042

### 5. Employee benefit obligations

#### Post retirement medical aid plan

The municipality has engaged Alexander Forbes Health (Pty) Ltd to conduct the 30 June 2013 actuarial valuation of the municipality's post retirement medical aid benefit. It is the policy of the municipality to provide retirement benefits to 18 employees. The results and assumptions of the valuation is noted below.

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Present value of the defined benefit obligation-wholly unfunded	3,859,789	3,458,620
Non-current liabilities	3,692,552	3,310,395
Current liabilities	167,237	148,225
	<u>3,859,789</u>	<u>3,458,620</u>

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	3,458,620	3,721,065
Net expense recognised in the statement of financial performance	401,169	(262,445)
Closing balance	<u>3,859,789</u>	<u>3,458,620</u>

#### Net expense recognised in the statement of financial performance

Current service cost	261,895	260,834
Interest cost	216,359	320,297
Actuarial (gains) / losses	76,479	(728,587)
Expected employer benefit payment	(153,564)	(114,989)
Total included in employee related costs	<u>401,169</u>	<u>(262,445)</u>

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

	2013 R	2012 R
<b>5. Employee benefit obligations (continued)</b>		
<b>Key assumptions used</b>		
Assumptions used at the reporting date:		
Expected retirement age	65	65
Discount rates used	9.00 %	7.75 %
Health care costs inflation	8.20 %	7.00 %
Salary inflation	7.20 %	6.00 %
Assumed a 7.2% increase in salaries and maximum subsidies with effect from 1 July 2013.		
The discount rate is based on current bond yields of appropriate terms gross of tax as required by IAS 19.		
The underlying future rate of customer price index (CPI inflation) is assumed to be 5.9% per annum.		
Health care cost inflation, it is assumed the current contribution table(s) of the medical aid scheme(s) would continue to apply in the future and exceed the CPI inflation by an average of 2.50% per annum.		
Assumed that 0% of current in-service members eligible for a retirement subsidy would discontinue medical scheme membership upon reaching retirement with uThukela District Municipality.		
Assumed that 100% of current in-service members would be married at retirement, unless the member is older than the expected retirement age and marital status have been provided at the valuation date.		
Assumed mortality rates:		
During employment - SA 85-90 (light) ultimate table		
Post-employment - PA(90) ultimate table rated down two years plus 1% improvement per annum ( from a base of year 2006).		
Assumed withdrawal are set out below:		
<b>AGE</b>	<b>Annual rate of withdrawal</b>	
15%	20	
10%	30	
7%	35	
4%	40	
2%	45+	
0%		
There is no allowance for early retirement.		
<b>6. Prepayments</b>		
Prepayment- IT maintenance assets	-	113,399
Prepayments- SAGLA paid in advance	594,000	-
	<u>594,000</u>	<u>113,399</u>
<b>7. Inventories</b>		
Promotional Items	-	3,742
Chemicals	1,151,980	878,695
Water stock	300,708	300,708
Stores	1,900,975	2,520,797
	<u>3,353,663</u>	<u>3,703,942</u>



# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

	2013 R	2012 R
<b>8. Trade and other receivables from exchange transactions</b>		
Deposits- fuel, landlords and ERWS	1,446,206	1,446,206
Other debtors - unreconciled inventory	-	1,121,283
Sundry debtors	194,618	674,920
	<u>1,640,824</u>	<u>3,242,409</u>
<b>9. Other receivables</b>		
Other receivables from non-exchange transactions	<u>418,891</u>	<u>9,556,724</u>
Other receivables are sundry receivables and therefore current.		
<b>10. Consumer debtors from exchange transactions</b>		
<b>Gross balances</b>		
Rates	-	506,530
Water and sanitation	508,106,109	413,707,450
	<u>508,106,109</u>	<u>414,213,980</u>
<b>Less: Allowance for impairment</b>		
Rates	-	(224,976)
Water and sanitation	(481,693,052)	(233,342,168)
	<u>(481,693,052)</u>	<u>(233,567,144)</u>
<b>Net balance</b>		
Rates	-	281,554
Water and sanitation	26,413,057	180,365,282
	<u>26,413,057</u>	<u>180,646,836</u>
<b>Age analysis</b>		
Rates		
150+ days	-	281,554
<b>Water &amp; Sanitation</b>		
Current (0 -30 days)	13,306,415	10,323,366
31 - 60 days	10,668,996	6,560,578
61 - 90 days	2,437,646	4,642,398
91 - 120 days	-	4,137,606
150+ days	-	154,701,334
	<u>26,413,057</u>	<u>180,365,282</u>
<b>Summary of debtors by customer classification</b>		
<b>Consumer (non commercial)</b>		
Current (0 -30 days)	12,132,075	16,113,397
31 - 60 days	14,729,154	10,960,211
61 - 90 days	14,375,114	9,365,538
91 - 120 days	20,132,116	8,522,969
150+ days	435,013,352	359,251,970
	<u>496,381,811</u>	<u>404,214,085</u>
Less: Allowance for impairment	(471,686,514)	(229,737,867)
	<u>24,695,297</u>	<u>174,476,218</u>

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

	2013 R	2012 R
<b>10. Consumer debtors from exchange transactions (continued)</b>		
<b>Industrial/ commercial</b>		
Current (0 -30 days)	1,150,084	501,218
31 - 60 days	116,618	185,892
61 - 90 days	251,033	145,494
91 - 120 days	97,245	117,336
150+ days	6,421,608	5,034,541
	<u>8,036,588</u>	<u>5,984,481</u>
Less: Allowance for impairment	<u>(7,023,008)</u>	<u>(2,902,781)</u>
	<u>1,013,580</u>	<u>3,081,700</u>
<b>National and provincial government</b>		
Current (0 -30 days)	393,749	496,669
31 - 60 days	599,355	497,152
61 - 90 days	282,987	170,238
91 - 120 days	(129,563)	142,773
150+ days	1,351,336	2,202,053
	<u>2,497,864</u>	<u>3,508,885</u>
Less: Allowance for impairment	<u>(1,793,683)</u>	<u>(701,521)</u>
	<u>704,181</u>	<u>2,807,364</u>
<b>Total</b>		
Current (0 -30 days)	13,306,415	17,111,284
31 - 60 days	15,698,001	11,643,256
61 - 90 days	14,632,650	9,681,269
91 - 120 days	20,492,901	8,783,078
150+ days	442,786,295	366,995,093
> 365 days	1,189,847	-
	<u>508,106,109</u>	<u>414,213,980</u>
Less: Allowance for impairment	<u>(481,693,052)</u>	<u>(233,567,144)</u>
	<u>26,413,057</u>	<u>180,646,836</u>
<b>Less: Provision for debt impairment</b>		
Current (0 -30 days)	(9,418,801)	(6,787,918)
31 - 60 days	(10,242,855)	(5,082,677)
61 - 90 days	(9,750,586)	(5,038,871)
91 - 120 days	(8,304,668)	(4,645,472)
121 - 365 days	(442,786,295)	(212,012,206)
> 365 days	(1,189,847)	-
	<u>(481,693,052)</u>	<u>(233,567,144)</u>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(233,567,144)	(218,949,588)
Current transfer	<u>(248,125,908)</u>	<u>(14,617,556)</u>
	<u>(481,693,052)</u>	<u>(233,567,144)</u>
<b>Fair value of consumer debtors</b>		
Consumer debtors from exchange transactions	<u>26,413,057</u>	<u>180,646,836</u>

## 11. Cash and cash equivalents

Cash and cash equivalents consist of:

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

	2013 R	2012 R
<b>11. Cash and cash equivalents (continued)</b>		
Cash on hand	7,100	7,700
Bank balances	685,433	27,952,435
Short-term deposits	152,607,642	60,444,056
Bank overdraft	(4,527,234)	-
	<u>148,772,941</u>	<u>88,404,191</u>
Current assets	153,300,175	88,404,191
Current liabilities	(4,527,234)	-
	<u>148,772,941</u>	<u>88,404,191</u>

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
ABSA Bank(Ladysmith) Account No- 404880058	-	-	-	-	-	(456,429)
ABSA Bank(Ladysmith) Account No- 4062520058	-	-	-	-	-	(366,334)
FNB(Ladysmith) Account No- 62252306280	1,468,189	19,339,419	630,960	685,433	19,339,419	184,848
FNB(Ladysmith) Account No- 62253072385	-	8,154,202	(4,792,574)	(4,527,234)	8,613,016	(7,536,997)
FNB(Ladysmith) Account No- 62283176644	221,426	60,444,056	205,728	-	60,444,056	205,728
FNB - Call Account - Account number: 62402906484	1,013,835	-	-	-	-	-
FNB - Fixed deposit account Account number 74361109934	151,372,381	-	-	152,607,642	-	-
<b>Total</b>	<b>154,075,831</b>	<b>87,937,677</b>	<b>(3,956,886)</b>	<b>148,765,841</b>	<b>88,396,491</b>	<b>(7,969,184)</b>

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

	2013 R	2012 R
<b>12. Development Bank of South Africa</b>		
<b>At amortised cost</b>		
Development Bank of South Africa	10,473,446	12,853,059
Loans bear an interest rate between 7.186% and 15.25% per annum and are repayable over twenty years. The balance comprises seven loans approved by the Development Bank of South Africa.		
<b>Non-current liabilities</b>		
At amortised cost	7,845,838	10,535,808
<b>Current liabilities</b>		
At amortised cost	2,627,608	2,317,251
<b>13. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	2,832,443	1,780,897
- in second to fifth year inclusive	2,334,489	2,053,603
	5,166,932	3,834,500
less: future finance charges	(926,821)	(364,685)
<b>Present value of minimum lease payments</b>	<b>4,240,111</b>	<b>3,469,815</b>
<b>Present value of minimum lease payments due</b>		
- within one year	1,691,905	1,548,035
- in second to fifth year inclusive	2,548,206	1,921,780
	<b>4,240,111</b>	<b>3,469,815</b>
<b>Non-current liabilities</b>	1,691,905	1,921,780
<b>Current liabilities</b>	2,548,206	1,548,035
	<b>4,240,111</b>	<b>3,469,815</b>
It is the municipality's policy to lease motor vehicles under finance leases.		
The average lease term was 3-5 years.		
Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rentals.		
<b>14. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises:</b>		
Municipal Infrastructure Grants (MIG)	81,318,448	86,412,810
Department of Water Affairs and Forestry Grant	7,045,301	5,355,096
KZN Projects	44,599,801	34,056,787
Sports and recreation grant	194,599	194,598
Municipal Systems Improvement Grant	324,109	331,593
Councillors training grant	200,000	-
Data cleansing project	(292,364)	-
	<b>133,389,894</b>	<b>126,350,884</b>

## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

	2013 R	2012 R
<b>14. Unspent conditional grants and receipts (continued)</b>		
<b>Movement during the year</b>		
Balance at the beginning of the year	126,350,884	25,679,534
Additions during the year	249,841,109	214,350,964
Income recognised during the year	(242,802,099)	(113,679,614)
	<u>133,389,894</u>	<u>126,350,884</u>

See note 21 for reconciliation of grants.

#### 15. Provisions

Current liabilities	40,302,341	34,234,577
	<u>40,302,341</u>	<u>34,234,577</u>

#### Reconciliation of provisions - 2013

	Opening Balance	Additions	Reversed during the year	Total
Legal proceedings	829,142	-	(829,142)	-
DWAF provision	22,885,602	4,264,022	-	27,149,624
Leave pay accrual	10,519,833	2,632,884	-	13,152,717
	<u>34,234,577</u>	<u>6,896,906</u>	<u>(829,142)</u>	<u>40,302,341</u>

#### Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Total
Legal proceedings	-	829,142	-	829,142
DWAF provision	17,766,151	5,119,451	-	22,885,602
Leave pay provision	14,803,110	-	(4,283,277)	10,519,833
	<u>32,569,261</u>	<u>5,948,593</u>	<u>(4,283,277)</u>	<u>34,234,577</u>

#### Legal proceedings provisions

A provision, based on the best estimate received from the municipality's attorneys was raised for litigation. This did not materialise and as thus has been reversed.

#### DWAF provision

A provision has been raised for the purchase of raw water from DWAF.

#### Leave pay provision

A provision has been raised for leave in accordance with the Basic Conditions of Employment Act.

#### 16. VAT Payable

VAT payable	<u>19,682,275</u>	<u>28,089,247</u>
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## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

	2013 R	2012 R
<b>17. Trade and other payables from exchange transactions</b>		
Trade payables	17,104,957	39,542,831
Discounting on accounts payable	(9,090,987)	(9,090,987)
Accrued bonus	3,291,872	-
DBSA accrued interest	291,138	356,850
Trust funds- late estates	2,817,532	3,019,571
Retentions	7,428,817	7,428,817
Other creditors	(88,065)	5,369,287
Sundry creditors	463,390	6,355,743
	<u>22,218,654</u>	<u>52,982,112</u>
<b>18. Consumer deposits</b>		
Water	<u>8,758,905</u>	<u>8,408,026</u>
<b>19. Revenue</b>		
Service charges	119,208,980	93,550,967
Interest received	39,236,761	19,048,071
Government grants & subsidies	495,985,099	341,485,743
	<u>654,430,840</u>	<u>454,084,781</u>
<b>The amount included in revenue arising from exchange of transactions are as follows:</b>		
Service charges	119,208,980	93,550,967
Interest received	39,236,761	19,048,071
	<u>158,445,741</u>	<u>112,599,038</u>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
Government grants & subsidies	<u>495,985,099</u>	<u>341,485,743</u>
<b>20. Service charges</b>		
Sale of water	104,239,864	81,194,771
Sewerage and sanitation charges	13,046,521	12,356,196
Other service charges	1,922,595	-
	<u>119,208,980</u>	<u>93,550,967</u>

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

	2013 R	2012 R
<b>21. Government grants and subsidies included in revenue</b>		
Equitable share	253,183,000	225,680,000
MIG Agency fee	-	2,126,130
Municipal Infrastructure Grants (MIG)	187,952,362	69,482,922
Department of Water Affairs and Forestry Grant	28,620,898	32,395,702
KZN projects	22,128,992	11,005,237
Sports and recreation grant	-	3,600
Municipal Systems Improvement Grant	1,007,483	792,152
Data cleansing project	3,092,364	-
	<b>495,985,099</b>	<b>341,485,743</b>
<b>Equitable Share</b>		
In terms of the Constitution and the Division of Revenue Act, this grant is used inter alia to subsidise the provision of free basic services and finance the administration costs of the Municipality.		
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	86,412,810	5,155,732
Current-year receipts	182,858,000	150,740,000
Conditions met - transferred to revenue	(187,952,362)	(69,482,922)
	<b>81,318,448</b>	<b>86,412,810</b>
Conditions still to be met - remain liabilities (see note 14)		
This grant is used for water and sewage infrastructure as part of the upgrading of informal settlement areas.		
<b>Department of Water Affairs and Forestry Grant</b>		
Balance unspent at beginning of year	5,355,096	3,817,098
Current-year receipts	30,311,103	33,933,700
Conditions met - transferred to revenue	(28,620,898)	(32,395,702)
	<b>7,045,301</b>	<b>5,355,096</b>
Conditions still to be met - remain liabilities (see note 14)		
This grant was provided to UThukela municipality for water and sanitation projects.		
<b>KZN Projects grant</b>		
Balance unspent at beginning of year	34,056,786	16,174,760
Current-year receipts	32,672,006	28,887,263
Conditions met - transferred to revenue	(22,128,992)	(11,005,237)
	<b>44,599,800</b>	<b>34,056,786</b>
Conditions still to be met - remain liabilities (see note 14)		
This grant has been provided to UThukela municipality mainly for water and sanitation projects, disaster management and Integrated Development Planning (IDP) support.		

## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

	2013 R	2012 R
<b>21. Government grants and subsidies included in revenue (continued)</b>		
<b>Sports and recreation grant</b>		
Balance unspent at beginning of year	194,599	198,199
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(3,600)
	<u>194,599</u>	<u>194,599</u>
Conditions still to be met - remain liabilities (see note 14)		
This grant has been provided to UThukela municipality for the building of sports fields.		
<b>Municipal systems improvement grant</b>		
Balance unspent at beginning of year	331,584	333,736
Current-year receipts	1,000,000	790,000
Conditions met - transferred to revenue	(1,007,482)	(792,152)
	<u>324,102</u>	<u>331,584</u>
Conditions still to be met - remain liabilities (see note 14)		
This grant is used for infrastructure, capacity building and restructuring. The capacity building and restructuring grants were set up to assist the municipality in developing planning, budgeting, financial management and technical skills.		
<b>Data cleansing project</b>		
Current-year receipts	2,800,000	-
Conditions met - transferred to revenue	(3,092,364)	-
	<u>(292,364)</u>	<u>-</u>
<b>Councillors training grant</b>		
Current-year receipts	<u>200,000</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 14)		
The grant is to facilitate councillor training.		
<b>22. Other income</b>		
Other income	<u>3,153,045</u>	<u>3,019,578</u>



## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

	2013 R	2012 R
<b>23. General expenses</b>		
Advertising	312,743	215,348
Auditors remuneration	2,555,646	888,840
Bank charges	298,261	279,195
Cleaning	117,358	119,579
Commission paid	351,575	330,691
Computer expenses	1,504,911	2,207,273
Consulting and professional fees	5,873,816	2,199,511
Consumables	27,836	20,050
Entertainment	282,884	513,075
Hire	5,287,059	4,256,578
Insurance	1,078,084	866,272
Conferences and seminars	26,043	35,215
Lease rentals on operating lease	3,239,351	2,933,871
Magazines, books and periodicals	2,647	7,968
Motor vehicle expenses	279,034	218,917
Fuel and oil	3,834,599	3,152,583
Postage and courier	7,347	10,981
Printing and stationery	1,060,341	1,063,186
Protective clothing	24,628	1,369
Security (Guarding of municipal property)	222,044	361,984
Subscriptions and membership fees	980,382	601,729
Telephone and fax	2,186,235	2,383,114
Training	27,606	60,585
Assets expensed	120,282	121,277
Electricity	38,393,382	34,645,318
Water	6,500,270	6,495,806
Water tankering	24,638,089	17,929,505
Audit committee	176,711	37,812
Government grant expenditure	6,737,873	80,207,289
Provision for litigation	(829,142)	829,142
Chemicals	5,168,042	6,489,721
Other expenses	15,684,018	26,617,977
	<b>126,169,955</b>	<b>196,101,761</b>

## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

	2013 R	2012 R
<b>24. Employee related costs</b>		
Basic	102,206,400	88,692,148
Bonus	3,291,872	-
Medical aid - employers contribution	3,087,738	2,785,762
UIF	650,319	636,864
SDL	972,156	883,500
Leave pay accrual	2,632,884	(4,283,277)
Post-employment benefits - Pension - Defined contribution plan	139,274	(262,445)
Travel, motor car, accommodation, subsistence and other allowances	381,249	3,655,837
Surcharge Pension Fund	9,158,589	6,676,881
	<u>122,520,481</u>	<u>98,785,270</u>

#### Remuneration of Municipal Manager

Annual Remuneration	1,623,907	939,341
Car Allowance	-	260,175
Leave pay	-	304,946
Back pay normal	-	24,280
	<u>1,623,907</u>	<u>1,528,742</u>

The municipality had an Acting Municipal Manager during the financial year who was employed on a contract basis.

#### Remuneration of Chief Finance Officer

Annual Remuneration	617,958	660,761
Car Allowance	113,740	121,620
Entertainment	59,378	63,491
Housing subsidy	27,852	29,779
Travel and subsistence	7,039	6,907
Back pay normal	-	17,725
Mileage	-	29,992
	<u>825,967</u>	<u>930,275</u>

The municipality had a Chief Financial Officer for 11 months of the financial year. At year end the position is unfilled, however there has been an appointment of an acting Chief Financial officer.

#### Manager: Technical services

Annual Remuneration	736,428	306,845
Car Allowance	108,000	45,000
Travel and subsistence	2,758	5,168
	<u>847,186</u>	<u>357,013</u>

#### Manager: Corporate services

Annual Remuneration	-	394,085
Car Allowance	-	109,487
Housing subsidy	-	4,205
Travel and subsistence	-	151,052
	<u>-</u>	<u>658,829</u>

This position was vacant during the current financial year.

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

	2013 R	2012 R
<b>24. Employee related costs (continued)</b>		
<b>Manager: Health services, Environment services and WSA</b>		
Annual Remuneration	303,696	595,342
Car Allowance	114,420	224,300
Housing subsidy	4,098	8,031
Travel and subsistence	10,104	1,764
Back pay normal	-	16,755
Mileage	-	52,370
	<b>432,318</b>	<b>898,562</b>

### Manager: Water services

Annual Remuneration	-	208,504
Car Allowance	-	67,444
	-	<b>275,948</b>

The position was vacant during the current financial year.

### 25. Remuneration of councillors

Executive Mayor	668,959	692,784
Deputy Executive Mayor	580,848	581,982
Mayoral Committee Members	1,050,755	1,052,431
Speaker	531,338	560,852
Councillors	1,959,880	2,614,315
	<b>4,791,780</b>	<b>5,502,364</b>

### In-kind benefits

The Mayor, Deputy Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties.

The Mayor has 5 full-time bodyguards.

### 26. Impairment of debtors

Debt impairment- Lime hill water debtors	1,189,847	-
Debt impairment - Consumer debtors	247,350,669	14,617,556
Debt impairment - Water and sanitation	-	224,976
Debt impairment - Sundry debtors	-	1,547,319
Debts impairment - Other	1,336	673
	<b>248,541,852</b>	<b>16,390,524</b>

## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

	2013 R	2012 R
<b>27. Interest received</b>		
Interest on investments - short term deposits	9,342,502	2,069,734
Interest charged on consumer debtors	29,447,330	16,978,337
Interest other	446,929	-
	<u>39,236,761</u>	<u>19,048,071</u>
	39,236,761	19,048,071
Interest charged on consumer debtors accounts are charged at a rate of prime plus 1% on a monthly basis.		
<b>28. Depreciation and amortisation</b>		
Property, plant and equipment	-	26,997,517
Intangible assets	-	1,833
	<u>-</u>	<u>26,999,350</u>
<b>29. Finance costs</b>		
Fruitless and wasteful expenditure	364,162	1,059,489
Bank	426,384	45,604
Development Bank of South Africa	1,339,223	356,850
Finance Leases	514,573	203,299
Other	-	1,190,628
	<u>2,644,342</u>	<u>2,855,870</u>
<b>30. Auditors' remuneration</b>		
Fees	<u>2,555,646</u>	<u>888,840</u>
<b>31. Bulk purchases</b>		
Water	<u>3,857,201</u>	<u>4,043,301</u>

## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

	2013 R	2012 R
<b>32. Cash generated from operating activities</b>		
Surplus	132,957,185	91,476,133
Adjustments for:		
Depreciation and amortisation	-	26,999,350
Loss on sale of assets	-	65,296
Debt impairment	-	16,390,524
Movements in retirement benefit assets and liabilities	401,169	(262,445)
Movements in provisions	6,067,764	1,665,316
Provision for litigation	-	829,142
Leave pay provision	-	4,283,277
Interest received	-	(19,048,071)
Accumulated surplus- non cash flow	-	(2,504,768)
Prior year adjustments	(7,435,167)	(5,041,785)
<b>Changes in working capital:</b>		
Inventories	350,279	(183,189)
Trade and other receivables from exchange transactions	1,601,585	(1,044,631)
Other receivables from non-exchange transactions	9,137,832	(3,289,910)
Consumer receivables from exchange transactions	154,233,782	(40,652,427)
Prepayments	(480,601)	616,628
Trade and other payables from exchange transactions	(30,763,458)	(50,316,203)
VAT	(8,406,972)	12,789,827
Unspent conditional grants and receipts	7,039,010	100,671,350
Consumer deposits	350,879	735,668
	<b>265,053,287</b>	<b>134,179,082</b>

## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

	2013 R	2012 R
<b>33. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	<u>196,037,000</u>	<u>299,437,892</u>
This committed expenditure relates to plant and equipment and will be financed by government grants, subsidy, internal funding's.		
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	4,878,885	-
- in second to fifth year inclusive	22,800	-
	<u>4,901,685</u>	<u>-</u>

Operating lease payments represent rentals payable by the municipality for certain of its office properties and rental equipment and these leases are negotiated on a month to month or tenancy at will basis. An escalation clause is applicable for some of the leases entered into. No contingent rent is payable.

The existing leases have not been straight lined in the current financial year.

#### Operating lease for the Lady smith office

The lease for the Ladysmith office is noted to be on a month to month basis. The municipality has an intension to move to a new premises and as thus currently accounts for lease rental in this regards on a monthly basis.

#### Operating lease for the Escourt office

The lease for the Escourt office is noted to be on a month to month basis.

#### Operating lease for Weenen office

Leases enetered into for offices at Weenen is a tenancy at will contracts the council is currently evaluating the need for these offices and as thus currently accounts for the lease rental in this regards on a month to month basis.

#### Operating lease for Colenso office

The lease entered into for the Colenso offices expires on 31 August 2013, as thus no straight lining has been done for any of the Municipallty's operating leases.

#### Operating lease for office machines

Operating lease for office machines are noted to be on a month to month basis. The municipality is currently finalising the tender process with regards to these leases and as thus no straight lining has been performed.

## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

	2013 R	2012 R
<b>34. Contingencies</b>		
D Kistad	-	15,240
AMJ Hlongwane	-	174,261
Aurecon	378,607	378,607
Jeffares & Green	-	576,484
IPTCO	-	600,000
J Potgieter	-	5,000
Telkom	23,694	23,694
Telkom	49,448	49,448
JEFFARES & GREEN	576,484	-
DK & V property	-	756,000
	<b>1,028,233</b>	<b>2,578,734</b>

#### A M J HLONGWANE:

ERADICATION OF BUCKET LATRINES IN EKUVUKENI CONTRACT 19/2005- CLAIM AMOUNT: R 174 261,20. We have defended this matter in the High Court and are awaiting for the Plaintiff to take the next step. Our prospects of success herein are good and we suggest that we continue defending this matter. This will not be provided as a contingent liability in the current year given the correspondence from the lawyers.

#### D. KISTADU:

CLAIM AMOUNT : R 15 240,00 This matter was set down for Trial and postponed. We have very good prospects of succeeding with our defence as we believe that the Plaintiff's claim should have been against the Emnambithi Ladysmith Municipality and not Uthukela. This will not be provided as a contingent liability in the current year given the correspondence from the lawyers.

#### AURECON:

CLAIM AMOUNT- R 378 606,54. This matter has been defended and must proceed. Prospects of success are good considering our previous consultation with S. Mthethwa and B H Khoza. For now the matter is pended as the Plaintiff is negotiating settlement with the Municipality directly.

#### J. POTGIETER:

CLAIM AMOUNT –R 4534,10. This matter has been defended and we are awaiting a trial date. Plaintiff's claim is against the Municipality for damages to his wall and paving when a water pipe was repaired. Prospects of success are good. This will not be provided as a contingent liability in the current year given the correspondence from the lawyers.

#### JEFFARES & GREEN:

CLAIM AMOUNT –R 576 483,75. This matter has been defended and set down for trial in the High Court from the 16th - 18th October 2013. Urgent preparation for Trial required.

#### TELKOM

CLAIM 1- CLAIM AMOUNT: R 23 693,59 ; CLAIM 2 – CLAIM AMOUNT: R 49 447,93 In both these matters our employees damaged the Telkom cables whilst repairing the water pipes. Unfortunately a similar matter was heard in the High Court and the ruling was against the Municipality of Pietermaritzburg in consequence of them failing to adhere to the way-leave agreement. We have from a very early stage of these matters suggested to Council to refer these claims to Council's insurers for settlement as we have little or no prospects of succeeding at trial.

### 35. Prior period errors

The following amounts resulted in adjustments to accumulated surplus which has resulted in the restatement of the opening balance of net assets on 1 July 2012 :

The correction results in adjustments as follows:

## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

	2013 R	2012 R
<b>35. Prior period errors (continued)</b>		
<b>Statement of net assets ( effect on opening accumulated surplus)</b>		
Reallocation of prior period bank reconciling items	-	4,491,940
Reallocation of unidentified deposits and receipts	-	(166,683)
Expiry of certificate	-	8,000
Reallocation of prior period general expenditure	-	(9,375,042)
Operating expenses relating to prior years	(7,435,167)	-
	<u>(7,435,167)</u>	<u>(5,041,785)</u>



# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

	2013 R	2012 R
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### 36. Risk management

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Bank balances and cash	148,772,941	88,404,191
Finance leases	4,240,111	3,469,815
Development of South Africa loans	10,473,446	12,853,059

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluate credit risk relating to customers on an ongoing basis. The municipality has independently rated some of their customer. Others, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

### 37. Events after the reporting date

#### Outstanding Rental: Enambithi Ladysmith Construction cc

On 26 July the Council took a resolution to settle the matter with Enambithi Constructions CC by either paying the rental in full and final settlement, or alternatively, the municipality through its attorneys negotiate with representatives of Enambithi Construction CC for the payment of outstanding rental over an extended period of time and not exceeding four months as well as issues pertaining to the interest on the capital amount and legal costs.

The settlement amount is R 3 200 728.47.

### 38. Unauthorised expenditure

#### Reconciliation of unauthorised expenditure

Opening balance	70,587,871	8,440,797
Unauthorised expenditure current year	198,909,159	62,147,074
	<u>269,497,030</u>	<u>70,587,871</u>

Unauthorised expenditure of R 198 909 159 was incurred during the financial period. The actual revenue and expenditure exceeded the approved budget by this amount.

Unauthorised expenditure has not been condoned or approved

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

	2013 R	2012 R
<b>38. Unauthorised expenditure (continued)</b>		
Council- employee cost	-	8,770
Council - depreciation	-	127,053
Council - fuel and oil	-	18,170
Council- transport official vehicle	-	11,203
Corporate services- subsistence travel	-	218,024
Corporate services- telephone	18,871	144,248
Corporate services- provision for litigation	-	756,000
Corporate services- training direct cost	-	9,890
Corporate services- employee costs	5,897,472	-
Finance - depreciation	-	14,003
Finance - subsistence travel	-	255,458
Finance - bad debt reserve	-	1,547,319
Finance - employee costs	1,078,406	-
Finance - interest	234,915	-
Finance - stock impairment	1,150,327	-
Finance - debt impairment	1,189,847	-
Health services- telephone	-	4,207
Health - subsistence travel	-	72,636
Water and sanitation- employee cost	633,034	263,702
Water and sanitation- pumps	404,255	-
Water and sanitation- bad debts written off	336	673
Water and sanitation- collection fees	-	129,691
Water and sanitation - water purchases	3,038,699	1,043,301
Water and sanitation cleansing materials	-	13,660
Water and sanitation - computer programs	-	127,716
Water and sanitation - department water accounts	-	700,643
Water and sanitation - electricity	1,733,928	1,324,351
Water and sanitation - bill printing	22,929	14,417
Water and sanitation - vehicle licenses	-	8,377
Water and sanitation - security	525,195	102,482
Water and sanitation -Uthukela security services	-	119,637
Water and sanitation - drought relief	-	50,105
Water and sanitation - water conservation	-	489,715
Water and sanitation- subsistence	1,016	-
Water and sanitation - water research levy	177,373	-
Water and sanitation - water tankering	2,475,626	-
Actuarial valuation	-	262,445
Water and sanitation - impairment	174,320,312	-
Strategic planning and economic development - depreciation	-	258,963
Strategic planning and economic development - subsistence and travel	-	149,140
Strategic planning and economic development - telephone	-	955
Appendix E (1)	-	62,214,917
Municipal Manager- employee cost	2,759,554	-
Municipal manager - audit fees	27,622	-
Planning and Economic Services- employee costs	19,054	-
Municipal manager - legal costs	3,200,388	-
	<b>198,909,159</b>	<b>70,461,871</b>

## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

	2013 R	2012 R
<b>39. Fruitless and wasteful expenditure</b>		
<b>Reconciliation of fruitless and wasteful expenditure</b>		
Opening balance	2,296,616	146,757
Fruitless and wasteful expenditure	1,522,070	2,149,859
	<b>3,818,686</b>	<b>2,296,616</b>
 Fruitless and wasteful expenditure has been incurred with the following suppliers		
South African Local Government Council (SALGBC)	-	2,500
Umntho Business Consulting	-	1,205,576
NS mchunu	-	5,565
BB Sithole	-	1,855
CI Narrandes	-	24,131
Eskom	86,345	105,077
SA Post office	-	7,997
uMtshezi Municipality	-	4,949
South African Revenue Services (SARS)	265,418	20,944
Emnambithi/ Lady Smith Municipality	9,785	17,679
Legal fees	-	288,961
Halstead Paolo Trust Account	-	611,382
Protea consulting	416,624	-
Telkom	4,606	-
DK&V PROPERTY INVEST	654,456	-
J.N MADONDO-REFUND	43,119	-
B M MCHUNU	2,159	-
PKX	39,558	-
	<b>1,522,070</b>	<b>2,296,616</b>
 <b>40. Irregular expenditure</b>		
Opening balance	15,183,436	577,566
Irregular expenditure current year - repairs and maintenance	-	76,789
Irregular expenditure current year (refer below-SCM deviations)	22,528,852	14,529,081
	<b>37,712,288</b>	<b>15,183,436</b>

#### Details of irregular expenditure

Bid specifications for the following procurement were not compiled by a bid specifications committee in accordance with the SCM regulations. In the course of implementing the SCM policy of the municipality, MFMA Sections 114, 36 and 32 deviations were recorded in the current financial year:

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

	2013 R	2012 R
<b>40. Irregular expenditure (continued)</b>		
<b>Section 114 deviations</b>		
	<b>Total value of awards</b>	<b>Payments in the current year</b>
Amalgamated Pumping Services - Interruption of water services	2,641,765	2,641,765
Amalgamated Pumping Services - Emergency repair project	5,345,413	4,350,763
Zamahlabisa trading - Material for disaster	450,000	45,000
FermtoServe (Pty) LTD - Material urgently required	2,131,652	773,551
Zamahlabisa Trading - Material for disaster	465,000	465,000
GR Solution - Ezakheni upgrade	2,026,139	1,318,864
Joat Sales and Services	166,045	166,045
	<b>13,226,014</b>	<b>9,760,988</b>
<b>Section 36 deviations</b>		
Implementation of Buffer Zone	150,104	60
Catering - Royal hotel	4,200	4,200
Catering - Ecstatic	19,000	19,000
Repair of vehicle	12,776	12,776
Hire of TLB - Blue sands trading 790cc	39,900	39,900
Hire of TLB - Laylam investment (Pty)	39,500	39,500
Hire of TLB - Ladysmith trading	40,470	40,470
Repair pump - Hydrolic and automotive supplies	49,465	49,465
Hire of TLB - Mgazi engineering	76,800	76,800
Hire of sewerjet machine - Indlovujozi Trading	35,112	35,112
Hire of TLB - Blue sands trading 790	77,520	77,520
Hire of TLB - Ubunzima trading	77,784	77,784
Pump repairs - Vivah Technologies	78,582	78,582
Pump repairs - Hydrolic and automotive	120,384	120,384
Van rental - Avis	182,371	56,219
Vivah Technologies	107,831	107,831
Hire of sewer jet machine - Indlovujozi Trading	35,112	35,112
Stationary - Nambithi office supplies	6,726	6,726
Escourt Satellite office - Rashed Suliman Trust ( 3 539 per month)	3,539	35,397
UThukela District offices - Emnambithi Construction ( 224 694 per month)	-	3,590,467
Colenso Satellite Office - Beukes JC T/A ABC Trust ( 1 224 per month)	-	11,774
Hire of video- Makhosonke construction	25,000	25,000
Repair pump - Hydrolic and automotive	2,109	2,109
Verification of assets- AB projects	125,422	125,422
Hire of sewerjet machine - Indlovujozi Trading	25,080	25,080
Hire of sewerjet machine - Indlovujozi Trading	10,032	10,032
Hiring of water tanker - Gerry's motors	12,540	12,549
Purchase of tools	28,000	28,000
Plumbing materials - Ladysmith trading	1,403	1,403
Camjet service	46,455	46,455
Insakavukela Trading Enterprise	9,120	9,120
Hiring of tipper truck	24,000	24,000
Repairs and maintenance - FemtoServe (pty) Ltd	498,843	498,843
SHK INVESTMENTS CC- water tanker	-	549,658
	<b>1,965,180</b>	<b>5,872,750</b>
<b>Section 32 deviations</b>		
Road asset management - Moteko construction	1,670,000	2,734,350
National transfers- Ezakheni water treatment works	3,900,000	2,070,731
Data cleansing - sonke consulting	2,800,000	1,548,264
Caseware monthly management system	2,795,000	416,624
Municipal governances	800,000	125,145
	<b>11,965,000</b>	<b>6,895,114</b>

## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

	2013 R	2012 R
<b>40. Irregular expenditure (continued)</b>		
<b>41. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	630,816	19,086
Amount paid - current year	-	(19,086)
	<u>630,816</u>	<u>-</u>
Balance included in current liabilities.		
<b>Audit fees</b>		
Opening balance	(1,238,702)	(174,931)
Current year subscription / fee	2,775,605	-
Amount paid - current year	(2,775,605)	(888,840)
Amount paid - previous years	-	(174,931)
	<u>(1,238,702)</u>	<u>(1,238,702)</u>
<b>PAYE and UIF</b>		
Current year subscription / fee	15,467,367	13,156,796
Amount paid - current year	(15,466,268)	(13,156,796)
	<u>1,099</u>	<u>-</u>
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	16,395,245	9,527,534
Amount paid - current year	(16,397,592)	(9,527,534)
	<u>(2,347)</u>	<u>-</u>
<b>VAT</b>		
VAT payable	<u>19,682,275</u>	<u>28,089,247</u>
All VAT returns have been submitted.		

# Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

	2013 R	2012 R
<b>40. Irregular expenditure (continued)</b>		
<b>Section 114 deviations</b>		
	<b>Total value of awards</b>	<b>Payments in the current year</b>
Amalgamated Pumping Services - Interruption of water services	2,641,765	2,641,765
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FermtoServe (Pty) LTD - Material urgently required	2,131,652	773,551
Zamahlabisa Trading - Material for disaster	465,000	465,000
GR Solution - Ezakheni upgrade	2,026,139	1,318,864
Joat Sales and Services	166,045	166,045
	<b>13,226,014</b>	<b>9,760,988</b>
<b>Section 36 deviations</b>		
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Repair pump - Hydraulic and automotive supplies	49,465	49,465
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Pump repairs - Vivah Technologies	78,582	78,582
Pump repairs - Hydraulic and automotive	120,384	120,384
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Vivah Technologies	107,831	107,831
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UThukela District offices - Ennambithi Construction ( 224 694 per month)	-	3,590,467
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Repair pump - Hydraulic and automotive	2,109	2,109
Verification of assets- AB projects	125,422	125,422
Hire of sewerjet machine - Indlovujozi Trading	25,080	25,080
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Purchase of tools	28,000	28,000
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Camjet service	46,455	46,455
Insakavukela Trading Enterprise	9,120	9,120
Hiring of tipper truck	24,000	24,000
Repairs and maintenance - FemtoServe (pty) ltd	498,843	498,843
SHK INVESTMENTS CC- water tanker	-	549,658
	<b>1,965,180</b>	<b>5,872,750</b>
<b>Section 32 deviations</b>		
Road asset management - Moteko construction	1,670,000	2,734,350
National transfers- Ezakheni water treatment works	3,900,000	2,070,731
Data cleansing - sonke consulting	2,800,000	1,548,264
Caseware monthly management system	2,795,000	416,624
Municipal governances	800,000	125,145
	<b>11,965,000</b>	<b>6,895,114</b>

## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

	2013 R	2012 R
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#### 41. Additional disclosure in terms of Municipal Finance Management Act (continued)

##### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2013:

30 June 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
MG Hlubi	1,249	56,228	57,477
DCP Mazibuko	579	9,316	9,895
NW Sibiyi	583	9,721	10,304
AS Mazibuko	1,236	64,452	65,688
NM Hlomuka	1,175	63,496	64,671
SD Magubane	347	9,036	9,383
	<u>5,169</u>	<u>212,249</u>	<u>217,418</u>
30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
TJMB Jeebodh	343	-	343
Magubane	786	7,206	7,992
AS Mazibuko	2,382	56,375	58,757
MA & AM Mkhize	46	-	46
	<u>3,557</u>	<u>63,581</u>	<u>67,138</u>

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

#### 42. Commentary on Statement of comparison of Budget and Actual amounts

##### Material differences between budget and actual amounts

## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

	2013 R	2012 R
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Explanations for variances greater than 10% noted in the Statement of Comparison of Budget and Actual as set out on pages 9 to 13 amounts are noted as follows:

#### Commentary on Statement of Financial Performance

##### Revenue

###### Service charges:

The difference is a result of accounts being closed in the current financial year as part of the data cleansing exercise which took place.

###### Interest received

In the current year, investment bank accounts were opened for grant income received, this resulted increased interest income being realised. In addition to this, variance is attributed to in penalty fees on arrear accounts as the municipality currently has numerous debtors accounts outstanding.

###### Other income

Recovery of income as a result of a forensic investigation.

###### Government grants-Transfers recognised (Capital)

The conditional grant was not spent as expected in the current financial year.

##### Expenditure

###### Employee related costs

The actual employee related costs includes accruals raised for leave pay and bonuses.

###### Remuneration of Councillors

Underspending is attributed to Councillor positions that became vacant during the year. Three council members died during the year, as thus their positions were vacant. New appointments were made towards the end of the financial year.

###### Debt impairment

The municipality has a current average collection rate of 40%. A prudent approach has been taken in establishing the recoverability of the current debtors which has resulted in a significant increase in the bad debt impairment provision.

###### Depreciation and asset impairment

Depreciation information has not been provided by the current service provider for the financial year.

###### Finance costs

Finance cost were under spent in the financial year.

###### Repairs and maintenance

Not all planned repairs and maintenance for plant was effected in the financial year.

###### General expenses

The year end journals related to fixed assets have not been processed and thus general expenses is currently overstated.

#### Commentary on Statement of Financial Position

##### Assets

###### Current assets

###### Cash and cash equivalents

The municipality current collection rates are low, and this has had a direct impact on the cash balance at year end.

###### Other receivables from exchange transactions

An impairment has been processed by the municipality as there probability of recovering the outstanding balance from 3rd parties is not probable.



## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

	2013 R	2012 R
<b>Receivables from non-exchange transactions</b>		
Receivables for non exchange transactions were not budgeted for in the financial year. The municipality has incurred debtors as a result of cashier shortages, reconciling items in the payroll suspense accounts and water shortages offices.		
<b>Prepayments</b>		
Prepayments were not budgeted for in the financial year. The municipality had to make a prepayment for expense relating to SALGA in the financial year.		
<b>Liabilities</b>		
<b>Current liabilities</b>		
<b>Borrowings - current</b>		
The borrowing current balance is a summation of the finance lease liability and the current portion Development Bank of South Africa loan. In the current year, no new loans were entered into by the municipality. The municipality entered into finance lease relating to four water tankers in the previous year. These water tankers were delivered in the current financial year and as a result the municipality is obligated to make payments towards these finance leases. This liability, was not taken into account as when the adjustment budget was finalised.		
<b>Payables</b>		
Unspent grants, Vat payable and creditors have been taken into consideration in finalising the budget for current financial year. The municipality did not make procurements in line with the expected expenditure for the financial year.		
<b>Bank overdraft</b>		
The bank overdraft budget was finalised based on expected procurement that were to occur during the financial year. Given that the municipality has not procured in line with the expected budget, this has also resulted in the variance of the bank overdraft.		
<b>Provisions</b>		
The municipality has raised provisions relating to Department of Water Affairs, leave pay, legal proceedings. These were not budgeted for.		
<b>Non current liabilities</b>		
<b>Borrowings - non current</b>		
The borrowing non current balance is a summation of the finance lease liability and the current portion Development Bank of South Africa loan. In the current year, no new loans were entered into by the municipality. The municipality entered into finance lease relating to four water tankers in the previous year. These water tankers were delivered in the current financial year and as a result the municipality is obligated to make payments towards these finance leases. This liability, was not taken into account as at when the adjustment budget was finalised.		
<b>Retirement benefit plan</b>		
The retirement benefit obligation was not apportioned between the current and non current portion in the financial year. In addition. As a result the variance of 11% does not take into account the current portion of the retirement benefit obligation. The retirement benefit in total notes a variance of 7.6%.		
<b>Commentary on Statement of Cashflow</b>		
<b>Cash flows from operating activities</b>		
<b>Receipts</b>		
<b>Sale of goods and services</b>		
The municipality currently has low collection rates as thus cash flows from service revenue was lower than anticipated.		

## Uthukela District Municipality

Annual Financial Statements for the year ended 30 June 2013

### Notes to the Annual Financial Statements

	2013 R	2012 R
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#### Interest income

In the current year, investment bank accounts were opened for grant income received, this resulted in increased interest income being realised. In addition to this, variance is attributed to in penalty fees on arrear accounts as the municipality currently has numerous debtors accounts outstanding.

#### Other income

The budget did not take into account cash flows from other income. In the current year, the municipality raised cash flows from sources including tender deposits, insurance claims, income recoveries as a result of fraud investigations and clearance certificates.

#### Payments

##### Suppliers and employees

Cashflows to suppliers were greater than budget.

##### Finance costs

Finance cost were over budgeted.

#### Cash flows from investing activities

##### Purchase of property plant and equipment

The municipalities records relating to fixed asset transactions have not been finalised as a result the analysis notes the 98% variance.

#### Cash flows from financing activities

Cash flows from finance leases and repayment of Development Bank of South Africa loans were not taken into consideration in the compilation of the budgeted cash flows.

#### 43. Water losses estimated

Water losses - quantity (Kilo liters)	-	28,851,148
Water losses - cost (Rand)	-	20,340,059

The municipality is currently unable to accurately determine water losses for the year under review. Flow meters to record water volumes distributed are either not working or are not in use. Consequently the municipality is unable to determine the water loss value for the year.